

# Request for City Council Committee Action from the Department of Community Planning and Economic Development (CPED)

**Date:** July 9, 2013

**To:** Council Member Lisa Goodman, Chair, Community Development Committee **Referral to:** Council Member Betsy Hodges, Chair, Ways and Means/Budget Committee

**Subject:** Ryan Companies' Development Proposal for Downtown East

**Recommendation:** 1) Receive and file this report on the general conceptual framework for the Ryan Companies' development proposal for Downtown East; and 2) authorize staff to negotiate term sheets and/or agreements with Ryan Companies and the Minnesota Sports Facilities Authority, subject to City Council review and approval, consistent with the general conceptual framework.

Previous Directives: None

Prepared by: Miles Mercer, other CPED Staff, City Attorney and Finance Staff

Approved by: Charles T. Lutz

Presenter in Committee: Charles T. Lutz

## **Financial Impact**

No appropriation requested with this action

#### **Community Impact**

- Neighborhood Notification: Briefing on the project to the Stadium Implementation Committee, which includes representatives from the Elliot Park neighborhood, Downtown Minneapolis Neighborhood Association, the Mill District neighborhood, and the East Downtown Council. On June 13, 2013 the Stadium Implementation Committee approved a motion to support the vision of the project.
- City Goals: Jobs & Economic Vitality, Eco-Focused, Livable Communities
- Comprehensive Plan: Two of the blocks are guided for Commercial, the remainder is guided for Mixed-Use. The area is also designated as part of the Downtown Growth Center.
- Zoning Code: Two of the blocks are zoned B4S-2, the remainder is zoned B4N, all are in the Downtown Parking Overlay District

#### **Supporting Information**

For years, the City, local neighborhoods, business leaders, and others have grappled with the challenge of bringing more consistent activity and new development to the Downtown East area around the Metrodome. The area has languished while the other downtown neighborhoods have received new investment, new residents, and new businesses. The Ryan Companies'

proposed project is an opportunity to correct that imbalance and bring significant new investment, development and amenities to Downtown East.

#### **Project Framework**

The Ryan Companies' project would be located on five blocks in Downtown East roughly bounded by 5<sup>th</sup> Avenue South on the west to Chicago Avenue on the east, 3<sup>rd</sup> Street South on the north to 5<sup>th</sup> Street South on the south, minus the block containing the Downtown East light rail transit station (see maps). The Star Tribune currently owns these five blocks. The blocks largely consist of surface parking lots along with three buildings: 425 Portland Avenue, 329 Portland Avenue, and 700/716 4<sup>th</sup> Street South.

Ryan Companies proposes to develop these blocks as follows:

- a) Approximately one million square feet of office space in two 20-story office towers on the two blocks bounded by 3rd and 4th Streets and 5th and Park Avenues (blocks 2 and 3 on the map).
- b) A parking ramp of approximately 1,300 stalls on the McClellan block, which is bounded by Chicago and Park Avenues and 3rd and 4th Streets (block 1 on the map).
- c) Approximately 300-350 multi-family housing units, including approximately 90 units that would line the south side of the two 20-story office towers and approximately 210 units on the north side of the two 20-story office towers. Contemporaneously or at a later time, Ryan, or another party, may also develop approximately 45 units on the south side of the McClellan parking ramp.
- d) Approximately 40,000 square feet of retail space integrated into the office and residential development.
- e) Skyways connecting the Haaf Ramp to the office development, and the office development to the McClellan Ramp, and the McClellan Ramp to the neighboring parking ramp on block 7, and a skyway connecting the McClellan Ramp and the Block 7 Ramp to the stadium.
- f) A basic park, known as "The Yard", on the two blocks bound by 4th and 5th Streets and 5th and Park Avenues that would be actively programmed for the public and for events occurring in the stadium (blocks 4 and 5 on the map).

In addition, other blocks that are significant to the project, include a) an approximately 400 stall parking facility that Ryan Companies proposes to develop for the Minnesota Sports Facilities Authority (MSFA) on the irregularly shaped block bounded by Chicago Avenue and 3<sup>rd</sup> and 4<sup>th</sup> Streets (block 7 on the map) and b) the existing parking ramp and Downtown East light-rail station on the block bounded by Park and Chicago Avenues and 4<sup>th</sup> and 5<sup>th</sup> Streets (block 6 on the map). Parking revenue from these blocks and their associated parking facilities is part of the funding plan described below.

Conceptual renderings of the project are available on the Ryan Companies' website: <a href="https://www.ryancompanies.com/upload/east-village-renderings.pdf">www.ryancompanies.com/upload/east-village-renderings.pdf</a>

Funding for the project would come from Ryan Companies, the MSFA, and the City. Total development costs are projected to be over \$400 million.

- Ryan Companies would privately finance the office, residential, and retail developments at a cost estimated to be approximately \$350 million.
- The MSFA would fund approximately \$35 million of project costs for the construction of skyways and the block 7 parking ramp and a portion of the McClellan parking ramp.
   This funding is part of the overall stadium project budget of \$975 million.
- The City would finance approximately \$65 million of project costs for The Yard, a portion of the McClellan Ramp, and other non-park project costs. For The Yard, this financing would fund site acquisition, site preparation and cleanup, general infrastructure improvements, and seeded grass. A fully improved and developed Yard is estimated to require an additional \$10-15 million in capital expenditures, initial funding for which could come from the sale of development rights and sponsorships (discussed below).
- The project would also seek available development assistance from other levels of government such as environmental remediation grants for extraordinary site preparation costs which, if obtained, may lessen the proposed City financing.

The City would finance its portion of the project costs through the issuance of general obligation bonds. The City would expect to issue two series of bonds: one related to the costs of The Yard and another related to the costs of the parking ramp (jointly, the "Bond Issuance"). As one source of revenue to repay the bonds, Ryan Companies would make scheduled, predetermined payments to the City to contribute to the annual debt service for, at a minimum, the first ten years of parking ramp operations. Ryan Companies expects to make its payments from revenues it receives managing the three parking ramps on blocks 1, 6, and 7 (see map). Ryan Companies would guarantee its payments regardless of whether it receives sufficient revenues from the parking ramps.

If and when Ryan's payment obligation ends (a minimum of ten years), the MSFA would operate the ramps, receive all net operating income from the parking facilities and would allocate that revenue to pay debt service on the parking ramps bonds issuance. If the amount of this revenue is not sufficient to cover the debt service on the parking ramp issuance, the MSFA would cover any debt service shortfall. Any parking revenues in excess of the amount needed to cover debt service on the parking ramp issuance would be shared by the MSFA and the City. The City would apply its share to the debt service on the Bond Issuance.

If the City's share of revenue from the ramps is not sufficient to cover the remaining debt service on the park bond issuance, the City would be required to use other general fund and/or other resources, to make the debt service payments for The Yard.

Other components of the framework would include:

- The City and/or MSFA would have the option, in their sole discretion, to terminate
  Ryan's operation of the parking ramps after a minimum of three years, which would also
  terminate Ryan's payment obligation to the City and trigger a possible repayment
  obligation to Ryan.
- During the period when the Ryan payment obligation is in place, the net operating income from the ramps, in any individual year, could be less than the amount of that year's payment obligation from Ryan. Discussions about how to handle this circumstance are ongoing. One approach could be as follows. Ryan would cover the first \$150,000 of deficit from any excess net operating income it may have retained from prior years of operation. If there has been no prior excess net operating income, the City and MSFA would instead cover the first \$150,000 of deficit. If the City and MSFA make any such annual deficit payment, they would be reimbursed from any future excess net operating income. Any annual deficit more than \$150,000 is the responsibility of Ryan.

- Ryan Companies would have an option to purchase from the City the westerly one-third, or approximately 36,000 square feet, of the west Yard block (block 4) at \$71 per square foot (approximately \$2.5 million) for future commercial and/or residential development until July 2016. If Ryan does not exercise its option, the City could market the land to others for development or retain it as a park.
- Development rights over and adjacent to the McClellan parking ramp, including the south side facing The Yard, would be offered for sale for future development. Structural changes would be required to the ramp to accommodate development of air rights over the ramp.
- It is anticipated that sponsorship and naming rights opportunities could be considered to help fund the overall Yard as well as for specific improvements in The Yard (e.g. fountains, stage, etc.).
- Developer would agree to include City equity and inclusion goals in effect at the time applicable agreements are signed for construction of the ramps, skyway and The Yard.

# Use of The Yard

The Yard would be a major new park amenity in downtown Minneapolis. The Yard would be available for use by the public year round, as well as for the MSFA and Minnesota Vikings for a specified number of days each year. Generally, the design and programming of The Yard would focus the entertainment and event purposes on the eastern block of The Yard and the recreational purposes on the western block.

Staff and MSFA have been engaged in discussions about uses of The Yard. The terms of use would ultimately be reflected in an agreement between the City and the MSFA that would address, among other matters, the following:

- A collaborative process for planning and designing The Yard.
- Use of The Yard for Vikings games and Vikings-related events, MSFA-sponsored events, including special events such as a NCAA Final Four tournament, and if a major league soccer (MLS) franchise is awarded, MLS-sponsored events.
- Subject to applicable City ordinances, rules for temporary structures within The Yard, including tents, portable toilets, lighting, staging, signage, etc.
- In terms of expenses for use, a definition of event day expenses and what expenses would be covered by the MSFA and/or Vikings.

The status of Park and Portland Avenues would affect the operations of The Yard. As county roads, Hennepin County decides how they are operated. Based on conversations with the County, there is little interest at this time in permanent closure. However, both streets could be closed temporarily during Vikings and MSFA events to provide continuity to The Yard. The streets also may be redesigned to be narrowed and have a more "park-like" feel.

The MSFA and/or Vikings would have exclusive control of concessions and marketing in The Yard, or a portion thereof, during certain of their events and for other dates as mutually agreed, with the exception of year-round businesses operating in permanent structures in The Yard. It is anticipated that the MSFA would seek an expansion of the premises for its liquor license to include The Yard for MSFA and Vikings events.

### Land Use Approvals

The City is in the process of undertaking an Alternative Urban Areawide Review (AUAR) process for the project. In addition, the project would undergo review through the City's land use approval process as a Planned Unit Development (PUD) for several site plan and design issues, including signage with the name of the anchor office user. The conceptual exterior signage plan for Wells Fargo is attached as an exhibit to this report. The project would also

seek City approval to demolish the three Star Tribune-owned buildings to make way for the park, parking ramp, and office/residential development.

This report does not convey any development rights or governmental approvals. Decisions on the required land use applications will be made based on the complete decision-making record created through the applicable process.

### **Project Benefits**

The proposed project would offer several benefits to the City.

- The project would bring over \$400 million of investment, development, and amenities to an area that has languished largely as surface parking lots for decades.
- The project increases the City's tax base, with total projected additional property taxes of approximately \$3.5 million in the first year, including approximately \$1 million for the city. Over 30 years, property taxes to the City are estimated to be on the order of \$30 million to \$50 million.
- The project is transit-oriented with its strategic location next to the Downtown East light rail station where the Hiawatha and Central Corridor lines converge, as well as its access to bus service, bike lanes, and pedestrian connections.
- The office space would support 5,000-6,000 jobs downtown with the anchor user. The
  City would offer the office user workforce recruitment assistance to help Minneapolis
  residents compete for the jobs created.
- The project would create 2,000 construction jobs for over 1.4 million hours of work. For the parking ramps, skyways, and basic park portions of its project, Ryan Companies would commit to meeting the same minority and female workforce objectives as those that apply to the stadium project.
- The project would add hundreds of residents to downtown and bring new retail services.
- The project would create a new park amenity, The Yard, to be used and enjoyed by residents, downtown workers, and visitors.
- Ryan Companies is willing to make at least ten years of payments to the City that would service the bonds paying for the park and a portion of the parking ramp.

#### Recommendation

Staff recommends that City Council:

- Receive and file this report on the general conceptual project framework
- Authorize staff to develop a funding plan and negotiate term sheets and/or agreements with Ryan and the MSFA consistent with the general conceptual framework, including the exterior signage plan. The term sheets and agreements would be subject to City Council review and approval.